

SUBJECT: Modifying public retirement systems in the City of Houston

COMMITTEE: Pensions — committee substitute recommended

VOTE: 6 ayes — Flynn, Anchia, Hefner, Huberty, Paul, J. Rodriguez

1 nay — Alonzo

WITNESSES: For — Kelly Dowe, Ronald Lewis, and Sylvester Turner, City of Houston; Chris Brown, City of Houston Controller's Office; Marc Watts, Greater Houston Partnership; Melvin Hughes, Houston Organization of Public Employees (HOPE) Local 123; David Long, Sherry Mose, and Erin Perales, Houston Municipal Employees Pension System; Terry Bratton and John Lawson, Houston Police Officers Pension System; Ray Hunt, Houston Police Officers' Union; Bill Elkin, Houston Police Retired Officers Association; (*Registered, but did not testify*: Roy Sanchez, AFSCME and Houston Organization of Public Employees (HOPE) Local 123; Robert Wofford, City of Houston; Michael Nieto and Jessie Trevino, Houston Fire Department, Shyamal Bhattacharya, Lloyd Deboest, Arthur Eason, Earnest Gatson, Anselmo Guillen, Gary Hill, Lutricia Hughes, Andrew Jones, Eugene Kelly, Timothy Leblanc, Robert Mayfield, Michael Sanderson, Darrell Stamps, Esque Strambler, Jere Talley, Cherrie Thomas, Daniel Tucker, Gregory Williams, Jeffrey Wilson, and James Young, Houston Organization of Public Employees (HOPE) Local 123; Anthony Kivela, Houston Police Retired Officers Association; and 27 individuals)

Against — Karen Buschardt, Eddie Cruz, Tommy Lummus, Chester Payne, Fernando Pedraza, Jacob Sandlin, John Smith, Michael Smith, and Jerry Stansel, Houston Fire Department; David Keller and Mike Shaunessy, Houston Firefighters' Relief and Retirement Fund; Ralph Marsh, Houston Firefighters Pension; Craig Moreau, Firefighters Pension; Andy Taylor, Firefighters Pension Fund; William Barry, Brannon Hershey, Larry Hunter, Richard Irwin, Richard Taylor, and Steve Williams, Houston Retired Firefighters Association; James Quintero, Texas Public Policy Foundation; and 26 individuals; (*Registered, but did*

not testify: Chris Reyna, Houston Fire Department Union; Anthony Abbott, Debbi Abbott, Nicholas Abbott, Gabriel Aleman, Terry Amaro, Vincent Amore, Jeff Ardley, Steven Alaniz, Scott Artze, Michael Bailey, Alec Beard, Richard Beddingfield, Javier Benavides, Richard Berlanga, Emmett Blair, David Bond, Kyle Bornowski, Willie Braxton, Stacy Broadrick, Steve Brooks, Paul Brown, Travis Buck, Karen Byrd, Michael Byrd, Robert Campbell, Kim Cash, William Cassidy, Ruth Castaneda, Charles Castaneda, Paul Chalk, Greg Chelette, Aaron Clark, Dana Cline, Terry Colburn, James Cooney, Dennis Cox, Robert Coker, Eileen Connelly, Dustin Dautat, Jason Danvir, Robert Davis, Charles Davis, Anthony Delgado, Damon Doherty, Daryl Dornak, Abdias Dorville, Tim Drews, Warren Ducote, Mike Eckhardt, Shea Elliott, Barry Edwards, Troy Feild, Kevin Fleming, Joseph Flores, Robert Franco, Michael Fuentes, Scott Fults, Chris Garcia, Javier Garza, Raymond Gates, Al Goebel, Tyler Graef, Rock Graham, Carter Green, Russell Harris, Curtis Hail, Douglas Harrison, Jesse Hernandez, Davin Heitmeyer, Lennie Higgins, William Hillyard, Eric Hobbs, Jason Horner, Patrick Horton, Jeff Jackson, Renee Jahnke, Robert Johnson, Ricky Johnson, Nicholas Johnson, Christopher Jouett, Mark Jozwiak, Billy Kallies, Chris Kelly, Tracey Kincade, Megan Kinsey, Ronald Krusleski, Charles Landeche, Larry Landriault, Terry Lawson, John Leon, Brandon Lewis, Clay Lindberg, Adam Lopez, Philbert Lopez Jr., Philbert Lopez Sr., Jeff Lundquist, John Malpass, Mark Martinez, Timothy Mares, Erik Marquez, Jeremy Martinson, Allan Machann, Donald Martin, Suzette Matejowsky, Michael Mathis, Timothy Maywald, Jason McClain, David McDonald, George Meadows, Desmond Miller, Tommy Miller, Jack Mobley, Andrew Morrow, Patrick Nagler, Scott Nichols, Clayton Neal, William Newell, Michael Niemann, Ronald Novak, Alexander O'Desky, Chris Oliver, Glenn Pangarakis, Robert Pecht, Rachel Pfardrescher, Michael Phillips, William Phillips, Timothy Perez, Erik Petocz, Raymond Pooler, Van Postell, Erika Postell, Mark Rives, Darla Reed, Walter Ritchie, William Roberts, James Roman, Henry Russell, Terri Salinas, Luis Sanchez, Larry Schulin, Kenneth Seynaeve, Leonard Silva, Martin Spears, Lisa Stephens, Dane Stewart, Corbin Sterle, Andrew Swanson, Eric Swisher, Michael Scott, Aaron Segura, Tommy Spradlin, Joel Stephens, Joseph Taska, Roderic Taylor, Travis Tolin, Travis Vick, Michael Whitmire, Mark Walker, Jason Wallace, Ryan

Wallace, Aaron Ward, Robert Webb, Brandon Westbrook, Matthew Whatley, Robert Wienserski, Lesley Wright, Ken Wright, and Leighton Yaw, Houston Fire Department; Sal Carbajal, Firefighter; Clifton Langton, Local 341 Active Firefighters; Jeff Laughlin, Local341; Julio Guerrero IV, Robert Hale, Juan Hernandez, Ronnie Koonce, Jonathan Needle, and Terry Seynaeve, Houston Firefighter Relief and Retirement Fund; Anthony Arnt, William Baldy, Guy Barnes, Charles Bell, Glenn Brannon, Lee Christ, David Crawford, Michael Dishman, Ken Dernehl, Mike Franklin, Rafael Gaitan III, Barbara Koger, Bruce Koger, Michael Lane, Howard Livesay, William Morrison, Janis Morrison, John Nance, Victor Pena, Ervin Reeves, Michael Richardson, Nick Salem, Bettye Smith, Michael Stanfield, Lance Stahl, Russell Tucker, Susan Villeneuve, Orlando Valls, Harold Vaughan, Richard Villeneuve, Willard Walden, Richard Wilson, Tommy Woodard, Michael Woodard, Mike Zigal, Houston Retired Firefighters Association; Robin Lennon, Kingwood Tea Party; Terry Hall, Texas Home Group Realtors ; Windi Grimes, Texans for Local Control of Pensions; Joseph Castaneda, San Antonio Fire Department; and about 125 individuals)

On — Christopher Zook, C Club of Houston; Paul Simpson, Harris County Republican Party; Anu Anumeha, Bob May, and Josh McGee, Pension Review Board; (*Registered, but did not testify*: Kenneth Herbold, Pension Review Board)

BACKGROUND: Vernon's Texas Civil Statutes, art. 6243e.2(1) governs the Houston Firefighters' Relief and Retirement Fund. Art. 6243g-4 governs the Houston Police Officer's Pension System. Art. 6243h governs the Houston Municipal Employees Pension System.

DIGEST: CSHB 43 would reduce member benefits, increase member contributions, and determine the City of Houston's contribution rate using a cost control mechanism called the "corridor" to preserve actuarial soundness of the Houston Firefighters' Relief and Retirement Fund (HFRRF), Houston Police Officers' Pension System (HPOPS), and Houston Municipal Employees Retirement System (HMEPS).

Applicable provisions for HFRRF, HPOPS, and HMEPS

The bill would require each pension system to perform several reports and analyses and establish member and city contribution rates.

Risk sharing valuation study. Every year, each fund actuary and municipal actuary separately would produce a risk sharing valuation study (RSVS) and present the findings no later than 150 days after the end of the fiscal year. The bill would require the RSVS to calculate the unfunded actuarial accrued liability and estimate the municipal contribution rate. The bill would establish the process for municipal and fund actuary contribution rates varying by more than two percent. It also would require the fund and city to separately perform an initial RSVS dated as of June 30, 2016, and project the corridor midpoint for 31 fiscal years beginning July 1, 2017.

Corridor. The initial RSVS would set the minimum and maximum contribution rate for the city using a cost management mechanism called the corridor. The bill would provide authority and procedure to make changes to the system if the RSVS estimated municipal contribution was above or below the corridor midpoint. In a decreasing cost environment, gains would be used to accelerate the payoff of unfunded liabilities or reduce the interest rate. In an increasing cost environment, adjustments would be made to the amortization period, employee contributions, or benefits to reduce the city contribution rate.

Actuarial Experience Studies. The bill would require that at least once every four years, the fund actuary conduct an actuarial experience study by September 30. The study would include all assumptions and methods recommended by the fund actuary and summaries of the reconciled actuarial data used in the creation of the actuarial experience study.

Independent investment consultant. The bill would require the pension system boards to hire an independent investment consultant once every three years to produce a report that includes the pension's compliance with its investment policy statement; asset allocation; portfolio structure; investment manager or advisor performance reviews; benchmarks for each

asset class; evaluation of fees and trading costs; evaluation of investment in any leverage, foreign exchange, or other hedging transactions; and evaluations of investment-related disclosures in the annual reports or valuations.

Houston Firefighters' Relief and Retirement Fund (HFRRF)

Board authority. The bill would allow the HFRRF board to alter benefit types or amounts, the means of determining contribution rates, or the contribution rates. The bill would prohibit the board from increasing the assumed rate of return above 7 percent per year, extending the amortization period of the liability beyond 30 years, or allowing the city's contributions to be less than the minimum or greater than the maximum city contribution rate.

Member contributions. The bill would increase an active member's contribution rate from 8.35 percent of the member's salary to 10.5 percent.

Municipal contributions. The bill would require the city to contribute at least biweekly to HFRRF an amount equal to the municipal contribution rate, as determined in the RSVS, multiplied by the pensionable payroll for the applicable fiscal year.

Deferred Retirement Option Plan (DROP). The bill would limit the number of years a DROP participant with 20 years of service could participate to 13 years.

Houston Police Officer's Pension System (HPOPS)

Board authority. The bill would allow the HPOPS board to correct any defect, supply any omission, and reconcile any inconsistency in HPOPS. The HPOPS board could not increase the assumed rate of return to more than 7 percent per year, extend the amortization period of the liability beyond 30 years, or allow the city's contributions to be less than the minimum or greater than the maximum city contribution rate.

Member contributions. The bill would increase an active member's contribution rate from 8.75 percent of the member's pay to 10.5 percent.

City contributions. The bill would require the city to contribute at least biweekly to HPOPS an amount equal to the city contribution rate, as determined in the RSVS, multiplied by the pensionable payroll for the applicable fiscal year.

Pension obligation bonds. The bill would allow HPOPS to rescind, prospectively, any or all benefit changes made effective under the bill, or to reestablish the deadline for delivering the pension obligation bond proceeds totaling \$750 million, if the city failed to deliver the proceeds by January 2, 2018. The issuance of pension obligation bonds would not require voter approval by the city.

Deferred Retirement Option Plan (DROP). The bill would cap the maximum number of years an active member could participate in DROP to 20 years. Cost of living adjustments (COLAs) occurring after the bill's 2017 effective date would not be credited to a member's DROP account.

Houston Municipal Employees Pension System (HMEPS)

Board authority. The HMEPS board could not increase the assumed rate of return to more than 7 percent per year, extend the amortization period of the liability beyond 30 years, or allow the city's contributions to be less than the minimum or greater than the maximum city contribution rate.

Member contributions. The bill would set the group A member contribution rate to 7 percent of the member's salary on or after the 2017 effective date and to 8 percent of the member's salary on or after July 1, 2018. The bill would set the group B member contribution rate to 2 percent of the member's salary on or after the 2017 effective date and to 4 percent of the member's salary on or after July 1, 2018. The bill would set the group D member contribution rate to 2 percent of the member's salary on or after the 2017 effective date, in addition to 1 percent of the member's salary that would be credited to the member's cash balance

account on or after January 1, 2018.

City contributions. The bill would require the city to contribute at least biweekly to HMEPS an amount equal to the city contribution rate, as determined in the RSVS, multiplied by the pensionable payroll for the applicable fiscal year.

Pension obligation bonds. The bill would allow HMEPS to rescind, prospectively, any or all benefit changes made effective under the bill, or to reestablish the deadline for delivering the pension obligation bond proceeds totaling \$250 million, if the city failed to deliver the proceeds on or before January 2, 2018. The issuance of pension obligation bonds would not require voter approval by the city.

Deferred Retirement Option Plan (DROP). The bill would require members who wanted to participate in DROP to meet normal retirement eligibility requirements, unless the member met the eligibility requirements before January 1, 2005. Members also would qualify for DROP if they had five years of service before January 1, 2005, and the sum of the member's years of service and age in years was at least 68.

Starting January 1, 2018, the HMEPS board would have to establish an interest rate between 2.5 percent and 7.5 percent for DROP accounts. The bill would order a DROP participant to pay required contributions to HMEPS for all the time in DROP that otherwise would constitute service to receive credit to the DROP account.

Effective date. This bill would take effect July 1, 2017 if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2017.

SUPPORTERS
SAY:

CSHB 43 would establish a sustainable solution for the Houston Firefighters' Relief and Retirement Fund (HFRRF), Houston Police Officer's Retirement System (HPOPS), and the Houston Municipal Employees Retirement System (HMEPS), which have billions of dollars in unfunded liabilities.

Increasing the retirement age and decreasing benefits are necessary for restoring the pension systems' actuarial soundness and paying off billions of dollars in unfunded liabilities.

Switching to a defined contribution system for new employees would provide no fiscal relief to the City of Houston for decades. The city needs immediate relief to avoid layoffs and service cuts. Switching to a defined contribution system also could trigger mass retirements, which would jeopardize public safety.

OPPONENTS
SAY:

CSHB 43 significantly would decrease retirement benefits for current and former employees. Cost of living adjustments (COLAs) help offset increased costs, such as employees' health insurance coverage. Reducing retirement benefits and suspending COLAs for certain pension system members would increase the financial burden on members' families. Spouses and dependent children of fallen police officers and firefighters in the line of duty rely on survivor benefits for their family's economic stability.

OTHER
OPPONENTS
SAY:

CSHB 43 also should include a pathway to a defined contribution plan for new employees in the three pension systems.

NOTES:

According to the Legislative Budget Board's fiscal note, the City of Houston estimates the required contribution to the pension systems in fiscal 2018 would be \$704.6 million without legislative changes and \$381.4 million with legislative changes and pension obligation bonds (POBs) issued. The debt service in fiscal 2018 for POBs would be \$25.5 million.